

# Minnesota Business Services Firms Expect Stability for 2018

Minnesota business services firms (such as engineers, accountants and architects) expect mostly stable levels for labor availability, employment level and productivity in 2018. They also anticipate growth for sales revenue.

These results come from a random sample of Minnesota businesses service firms conducted in May and June by the Minnesota Department of Employment and Economic Development and the Federal Reserve Bank in Minneapolis.

## Business Services Firms-Previous Four Quarters

Minnesota business services firms reported mostly unchanged or improved conditions in 2016. Seventy-one percent experienced unchanged labor availability and 67 percent reported constant employment levels. Additionally, 63 percent indicated no changes in selling prices and productivity. Sales revenue had the best performance among indicators with 46 percent of firms reporting growth.

Business Services Firms-The Coming Year  
Minnesota business services firms expect mostly stable conditions for the coming year. Seventy-seven percent anticipate unchanged labor availability and only five expect increased levels. Seventy-one percent expect unchanged employment levels while 21 percent anticipate employment growth. Respondents were closely divided between those who expect stable profits (40 percent) and those who anticipate profit growth (42 percent). Table 1 shows results for all indicators.

Outlook on the State Economy  
  
Minnesota business services firms expect mostly stable or improved conditions. Most diffusion indexes are higher than 50, indicating expansion but they are comparable to last year’s survey, as shown on Table 1. Respondents are almost equally divided anticipating improved (45 percent) or stable conditions (46 percent) for employment. The diffusion index for this indicator is 67, identical to the diffusion index the previous year. Respondents are less optimistic about inflation with 59 percent expecting an increase.

A new question inquired about labor turnover. Nearly three-quarters of respondents indicated they had not experienced significant changes. Nonetheless, 20 percent reported an increase.

Table 1. Minnesota 2017 Manufacturing Business Condition Survey Results1

| **Business indicators in the last 4 quarters:** | **Up** | **Same** | **Down** | **Diffusion Index 2017(2)** | **Diffusion Index 2016(2)** |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 46% | 31% | 23% | 61 | 62 |
| Profits | 40% | 33% | 27% | 57 | 56 |
| Productivity | 27% | 63% | 9% | 59 | 63 |
| Employment level | 19% | 67% | 14% | 52 | 57 |
| Labor availability | 5% | 71% | 24% | 41 | 41 |
| Selling Prices | 28% | 63% | 9% | 59 | 60 |
| Input Costs | 49% | 48% | 3% | 73 | 73 |
| Space occupied (Square footage) Exports (sales for foreign clients) | 5% 3% | 89% 93% | 6% 4% | 50 49 | 51 50 |

| Labor indicators in the last 4 quarters | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 2% | 34% | 21% | 34% | 5% | 4% |
| Benefits per worker | 3% | 50% | 11% | 18% | 10% | 8% |

| Expected business indicators in 2018, compared to 2017: | Up | Same | Down | Diffusion Index 2017(2) | Diffusion Index 2016(2) |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | 51% | 34% | 15% | 68 | 63 |
| Profits | 42% | 40% | 18% | 62 | 60 |
| Productivity | 32% | 63% | 5% | 64 | 62 |
| Employment level | 21% | 71% | 7% | 57 | 56 |
| Labor availability | 5% | 77% | 18% | 44 | 44 |
| Selling prices Input Cost | 26% 41% | 67% 57% | 7% 2% | 60 70 | 61 70 |
| Space occupied (Square footage) | 4% | 93% | 3% | 50 | 53 |
| Exports (sales for foreign clients) | 3% | 93% | 4% | 49 | 51 |

| Expected labor indicators in 2018, compared to 2017: | Decrease | 0 | 1-2% | 3-5% | 6-9% | >10% |
| --- | --- | --- | --- | --- | --- | --- |
| Wages per worker | 2% | 31% | 32% | 30% | 3% | 2% |
| Benefits per worker | 2% | 51% | 20% | 16% | 6% | 5% |

| Expected outlook on the following state economic indicators during the next year: | Up | Same | Down | Diffusion Index 2017(2) | Diffusion Index 2016(2) |
| --- | --- | --- | --- | --- | --- |
| Employment | 45% | 46% | 10% | 67 | 67 |
| Consumer spending | 41% | 46% | 13% | 64 | 63 |
| Inflation | 59% | 40% | 1% | 79 | 72 |
| Corporate profits | 41% | 45% | 14% | 64 | 63 |
| Mergers and Acquisitions | 42% | 54% | 4% | 69 | 68 |

| Have changes in credit conditions in the last 4 quarters affected your firm?: | No  Changes | Increased Hiring | Increased  Capital Expenditures | Decreased Hiring | Decreased  Capital Expenditure |
| --- | --- | --- | --- | --- | --- |
|  | 84% | 1% | 5% | 5% | 5% |

| How has labor turnover changed at your location during the last four quarters?: | Increased | No  Change | Decreased | Unsure | Empty Column |
| --- | --- | --- | --- | --- | --- |
|  | 20% | 74% | 3% | 2% |  |

1. Based on responses from 242 Minnesota business services firms, for a response rate of 20.2 percent. The sampling error is plus or minus 6.24 percent at a 95 percent confidence level. Percentages might not add to 100 percent due to rounding.
2. A diffusion index great than 50 indicates expansion, less than 50 indicates contraction.
3. Percentages might not add to 100 percent due to rounding.

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